

NEWS FROM ED MARKEY

United States Congress

Massachusetts Seventh District

FOR IMMEDIATE RELEASE

October 27, 2004

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GAO: U.S. Financial Markets Still Vulnerable to Terrorist Attacks

Markey Joins in Calling for Action to Address Threat

Washington, D.C. – Today Representative Edward J. Markey (D-MA), the Ranking Democrat on the House Energy and Commerce Committee's Telecommunications and the Internet Subcommittee, and a Member of the Homeland Security Committee, joined with Representative John Dingell (D-MI) and Rep. Jan Schakowsky (D-IL) to release a report by the Government Accountability Office (GAO) on vulnerabilities in our nation's financial markets to future terrorist attacks.

"This report shows that while the financial services industry has taken some steps to reduce their vulnerability, additional efforts are still needed to ensure that Al Qaeda cannot successfully disrupt the financial markets we rely on to serve as the engine of the capital formation process that drives our national economy," said Rep. Markey.

The 50-page GAO report the lawmakers released today, entitled Financial Market Preparedness: Improvements Made, but More Action Needed to Prepare for Wide-Scale Disasters, GAO-04-984, determined that major improvements have been made but some serious weaknesses remained that need to be addressed promptly. In connection with the release of the GAO report, Reps. Markey, Dingell, and Schakowsky sent a letter to the Securities and Exchange Commission and the GAO calling for prompt action to respond to the recommendations made in the report and for continued monitoring by the GAO of progress made.

The GAO report noted that: "Since our previous report, almost all of the critical organizations took steps to improve their physical and electronic security." However, as of June 2004, three of these seven critical organizations still did not have geographically diverse backup facilities capable of assuming all critical operations (p. 11). Instead, their backup facilities were located in the same geographic area as their primary sites. Additionally, one of the three had no formal plan to ensure that sufficient numbers of trained staff would be available should staff at the primary facility be lost (p. 12). GAO warns that "these organizations faced an increased level of risk of operational disruptions" and that "geographic concentration of these firms could leave the markets without adequate liquidity for fair and efficient trading in a potential disaster." The lawmakers today sent a letter to the GAO and to the SEC urging that these firms to explore creative solutions to this serious problem.

The GAO report also examined eight large trading firms (five broker-dealers and three banks) whose activities represent a significant portion of the total trading and clearing volume on U.S. markets. GAO

found that all had taken steps to improve their recovery capabilities, but "some still faced increased risk of disruption." (p. 14) According to GAO, four of these firms were at greater risk of a disruption to their trading operations because of the concentration of key trading staff in a single location at the same time (p. 15). Officials at two of these firms said that, if they were to lose their trading operations staff, it would likely take several weeks to reconstitute their trading operations, even using staff from other operations. Officials at one of the firms said that replacing highly skilled trading staff with inexperienced staff could put the firm's capital at risk and that, while they might eventually reconstitute their trading operations, they would most likely exit the market for an indefinite period of time. Although officials at both firms said they recognized that they faced increased risk, they said that the costs associated with splitting or rotating these staff were viewed as too great, compared with the potential risk of disruption.

The GAO also found (at page 36) that: "One of the lessons learned from the September 2001 attacks was that without key broker-dealers able to trade, the markets could not reopen." The lawmakers letter encourages these firms, to the extent possible, to work to mitigate this risk.

The GAO report also notes (on page 17) that: "The September 2001 terrorist attacks highlighted the critical importance of resilient telecommunications services for the continued operation of the U.S. financial markets." The GAO warns that "maintaining telecommunications redundancy and diversity over time will remain a challenge." The lawmakers promised to continue to monitor this area.

The lawmakers letter requests that: "GAO (1) continue to monitor progress on all open issues and (2) submit a followup report in 2005 on the status of the responses to GAO's recommendations and the need for any further actions."

A copy of the GAO report and the lawmakers letter can be found at: www.house.gov/markey